WATER/SNR/TAC/LTR:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4415 August 21, 2003

RESOLUTION

(RES. W-4415), LAS FLORES WATER WORKS (LFWW). ORDER AUTHORIZING A GENERAL RATE INCREASE PRODUCING ADDITIONAL ANNUAL REVENUE OF \$5,336 OR 26.9%, IN 2002. THIS ORDER ALSO AUTHORIZES A 2.4% CPI INCREASE FOR YEAR 2003, PRODUCING ADDITIONAL ANNUAL REVENUES OF \$604.

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$5,336 or 26.9%, based on Test Year 2002. It also provides a 2.4% Consumer Price Index (CPI) increase for year 2003, producing additional annual revenues of \$604. These increases will provide a 12.9% rate of return on a rate base of \$49,264.

BACKGROUND

LFWW's original increase request was filed utilizing Test Year 2001, when Test Year 2002 should have been used based on the timing of the filing and the estimated implementation date of rates. The Water Division staff (Staff) assisted LFWW in revising its filing by applying the appropriate inflation factors. The revised filing was accepted on July 15, 2002.

LFWW has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 28.9% or \$5,642, for Test Year 2002. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. LFWW's request shows the gross revenues of \$19,515 at present rates increasing by 28.9% (or \$5,642) to \$25,157 at proposed rates. LFWW is requesting a rate of return on rate base of 13.0%.

The current rates were established on May 14, 2001, pursuant to recovery of annual Department of Health Services fees and a CPI increase for 2000. The last general rate increase for LFWW was granted on December 18, 1995, pursuant to Resolution W-3955, which authorized an increase in gross annual revenues of \$12,920, or 152.2%, and a 14.14% rate of return on rate base for the Test Year 1995.

LFWW currently serves approximately 59-metered customers in an unincorporated area known as the Las Flores, located roughly nine miles south of the City of Red Bluff, Tehama County. LFWW's service area covers approximately one square mile of territory. LFWW's customers are a mixture of retired and working people earning an income slightly less than the average income for Tehama County.

DISCUSSION

LFWW is owned by the Patterson Trust, with Donald E. Crain as the named trustee, and Mr. Shan Patterson as the Trust caretaker. The Patterson Trust was formed in early 1992 and LFWW's ownership was transferred from Mr. and Mrs. Patterson to the Patterson Trust in December of 1992.

The Patterson Trust also owns two other water systems: Vista Grande Water System (VGWS) and Mira Monte Water Company (MMWC). All three water utilities are operated by Mr. Shan Patterson. LFWW employs three individuals: Mr. Shan Patterson (manager, general maintenance and field worker), Mrs. Shirley Patterson (office worker), and a person who aids in meter readings. The majority of repair work is done by Mr. Patterson, or is contracted out.

The three CPUC-regulated entities, while distinct, do have the benefit of some shared expenses (e.g. transportation, salaries, insurance, etc.). This requires the customers of each company to pay a percentage of these expenses. Shared expenses are allocated to each district based upon the number of customers. This resolution deals specifically with LFWW's rate increase request. VGWS's and MMWC's requests are dealt with in separate resolutions.

Appendix A shows LFWW's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows LFWW's and the Branch's estimates in operating revenues, expenses, and rate base.

Staff analyzed each operating expense item listed in Appendix A and disagreed with several of LFWW's estimates. Most differences involved allocation of expenses among the three water utilities. Where indicated, Staff has allocated expenses based upon the percentage of total customers.

LFWW was informed of the Branch's differing views of revenues, expenses and rate base and it agrees with the Branch's findings.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff first calculates the revenue requirement utilizing the rate of return method and then calculates the revenue requirement utilizing the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues.

In the operating ratio method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation expenses, income and other taxes, and an operating margin. A 20% rate of margin has historically been used to determine the margin over and above operating, maintenance, and depreciation expenses.

Comparison of the revenue requirement indicates that the return on rate base method produces a higher revenue requirement than the operating ratio method. In keeping with policy, Staff recommends the return on rate base method for determining the revenue requirement.

The current workbook utilized for Class D utilities (now a modified 3-page document) only allows the utility to utilize the last adopted rate base figure and to add and retire plant additions since the last rate case. There are no adjustments allowed for accumulated depreciation on prior plant in service, working cash, or materials and supplies.

LFWW estimates \$56,018 for Rate Base for Test Year 2002. LFWW utilized the 1995 adopted rate base with adjustments made for plant additions/retirements (from 1995 to 2001), as provided in the current workbook. Staff estimates \$49,264 for rate base for Test Year 2002. Staff utilized the 1995 adopted rate base, made

adjustments for plant additions/retirements, depreciation, working cash, and materials and supplies.

Staff utilized the 1995 approved plant-in-service figure of \$62,255 as its starting point. Staff then added the corresponding plant additions and retirements from 1995 to 2001, redistributed office furniture and equipment between the three water utilities, proportionately by the number of customers, and corrected numerous errors in LFWW's plant accounts as recorded in its annual reports (numerous account amounts were inadvertently recorded incorrectly and the errors were carried from annual report to annual report). Staff estimates, after all adjustments, the average utility plant-in-service to be \$67,673 for the 2002 Test Year.

Because of the redistribution of plant, Staff is recommending that LFWW be ordered to incorporate the following figures as beginning-of-year plant-inservice figures in its 2002 annual report:

ACCOUNT	DESCRIPTION	AMOUNT
303	Land	687
307	Wells	4,672
317	Other Water Source Plant	0
311	Pumping Equipment	6,676
320	Water Treatment Plant	0
330	Reservoirs, tanks, & sand pipes	800
331	Water Mains	36,720
333	Services & Meter Installations	10,203
334	Meters	2,846
335	Hydrants	2,600
339	Other Equipment	1,485
340	Office Furniture & Equipment	984
341	Transportation Equipment	0
	TOTAL	\$67,673

There are no outstanding Commission Orders requiring system improvements for LFWW. However, Staff is concerned with the lack of a reliable secondary source of supply and recommends that MMWC be ordered to investigate and report to the Water Division within 90 days as to the costs of secondary source of supply, including alternative methods, and the rate impact on the customers. LFWW has been filing annual reports as required. LFWW's tariff sheets have been reviewed by Staff and the following sheets need to be updated: Title Page,

Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.

LFWW's current rate structure consists of one schedule: Schedule No. 1, General Metered Service. The new rate schedule can be found in Appendix B. A bill comparison can be found in Appendix D. At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer would increase from \$28.37 to \$35.95 per month. A comparison of customer bills at present and recommended rates is shown in Appendix D. The adopted quantities and tax calculations are shown in Appendix C.

NOTICE AND PUBLIC MEETING

LFWW mailed a notice of the proposed rate increase to each customer on September 17, 2002. No letters of protest have been received by Staff. From March 17, 2002 to March 17, 2003, the Consumer Affairs Branch of the Public Affairs Division received one billing complaint regarding LFWW.

On October 8, 2002, Staff held a public meeting in Gerber, near LFWW's service territory. Four customers attended the meeting. Ms. Tench, Utilities Engineer, conducted the meeting and explained Commission rate setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

FINDINGS

- 1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
- 2. Staff recommends that rates be increased by a 2.4% CPI due to the timing of this resolution.
- 3. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
- 4. The quantities (Appendix C) used to develop the Staff's recommendations are reasonable and should be adopted.
- 5. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
- 6. LFWW does not have a reliable secondary source of supply.

- 7. LFWW's system meets G.O. 103 pressure requirements.
- 8. LFWW does not maintain a detailed vehicle mileage log and is unable to provide actual mileage for its transportation expense.
- 9. LFWW's annual reports contain numerous recording errors.
- 10. LFWW's records are not properly kept in an easily accessible fashion.
- 11. LFWW's following tariff sheets need to be updated: Title Page, Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.

THEREFORE IT IS ORDERED THAT:

- 1. Authority is granted under Public Utilities Code Section 454 to Las Flores Water Works to file an advice letter incorporating the summary of earnings and the revised rate schedule attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective rate Schedule No. 1, General Metered Service. The filing shall comply with General Order 96-A. The effective date of the revised schedule shall be five days after the date of filing.
- 2. Las Flores Water Works shall increase its annual revenues by \$5,336 or 26.9%, based on reasonable rates for 2002.
- 3. Las Flores Water Works shall increase its annual revenues of \$25,180 by an additional \$604, or a 2.4% CPI increase that will provide reasonable rates for 2003.
- 4. Within 90 days from the date of this order, Las Flores Water Works shall investigate the costs of a secondary source of supply, including alternative methods and the rate impact on the customers, and report its findings to the Water Division.
- 5. Las Flores Water Works shall maintain a detailed vehicle mileage log that will clearly identify utility-related expenses.
- 6. Las Flores Water Works shall submit revised annual reports which incorporate the correction of errors identified in Staff's analysis.
- 7. Las Flores Water Works shall incorporate the figures shown in this report as its beginning-of-year plant-in-service and depreciation reserve accounts in its 2002 annual report.

- 8. Las Flores Water Works shall keep their records in an easily accessible fashion and in accordance with the Commission's Uniform System of Accounts.
- 9. Las Flores Water Works shall update the following tariff sheets: Title Page, Rule 5, Special Information Required on Forms, Rule 7, Deposits, Rule 10, Disputed Bills, and Form 2, Customer's Deposit Receipt.
- 10. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 21, 2003. The following Commissioners voting favorably thereon:

WILLIAM AHERN Executive Director

President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

Appendix A Las Flores Water Works

Summary of Earnings -- Test Year 2002

	LFW	<u>W</u>	Branch		
	Present I	Proposed	Present	Proposed 1	Recommended
Description	Rates	Rates	Rates	Rates	Rates
Operating Revenue					
Metered	19,515	25,157	19,844	25,587	25,180
	19,515	25,157	19,844	25,587	25,180
Operating Expenses	10,010	20,107	10,011	20,001	20,100
Operating Expenses Power	2,104	2,104	2,104	2,104	2,104
Employee Labor	765	765	666	666	666
Materials	635	635	390	390	390
Contract Work – General	900	900	1,089	1,089	1,089
Contract Work - Water Testing	1,140	1,140	900	900	900
Transportation Expenses	400	400	972	972	972
Other Plant Maintenance	220	220	0.2	0	0
Office Salaries		1,720	1,914	1,914	1,914
Management Salaries	3,050	3,050	3,065	3,065	3,065
Uncollectible Expenses		60	117	151	149
Office Services & Rent		680	979	979	979
Office Supplies & Expense	280	280	545	545	545
Professional Services	750	750	73	73	73
Insurance	350	350	573	573	573
Regulatory Commission Expenses	250	250	415	415	415
General Expenses	505	505	333	333	333
Subtotal	13,809	13,809	14,136	14,170	14,167
Depreciation	1,368	1,368	1,474	1,474	1,474
State Income Tax		2,119	256	761	725
Federal Income Tax			396	1,177	1,122
Taxes Other than Income Taxes	579	579	1,337	1,337	1,337
Total Deductions	15,756	17,875	17,599	18,918	18,824
Net Revenue	3,759	7,282	2,246	6,669	6,356
Rate Base					
Average Plant			67,673	67,673	67,673
Avg. Accumulated Depreciation			20,161	20,161	20,161
Net Plant			47,512	47,512	47,512
<u>Less</u> Advances			0	0	0
Contributions			0	0	0
Plus Working Cash			1,178	1,181	1,181
Materials & Supplies			571	571	571
Rate Base:	56,018	56,018	49,261	49,264	49,264
Rate of Return	6.71%	13.00%	4.56%	13.54%	12.90%

Appendix B Las Flores Water Works

Schedule No. 1 General Metered Service

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The unincorporated community of Las Flores, Tehama County.

RATES

Quantity Rates	Per Meter <u>Per Month</u>	
All water, per 100 cu. ft	\$1.31	(I)
Service Charge		
For 5/8 x ¾-inch meter	\$19.82	(I)
For ¾-inch meter	\$29.73	
For 1-inch meter	\$49.55	(I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rates.

SPECIAL CONDITIONS

- 1. In accordance with Section 2714 of the Public Utilities Code, if a tenant in a rental unit leaves owing the company, service to subsequent tenants in that unit will, at the company's option be furnished on the account of the landlord or property owner.
- 2. A late charge will be imposed per Schedule No. LC.
- 3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

Appendix C (Page 1 or 2) Las Flores Water Works

Recommended Quantities -- Test Year 2002

Expenses

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income

25% for next \$25,000 of taxable income 34% for next \$25,000 of taxable income 39% for next \$235,000 of taxable income

2. State Tax Rate: 8.84%

3. Purchased Power:

Pacific Gas and Electric Company, Schedule No. A-1 & A-1P, Small General Service, Effective July 27, 2001

Quantity Charge:

kWh used - total: 10,011 kWh used - summer: 6,960 \$/kWh - summer: \$0.14870 kWh used - winter: 3,051 \$/kWh - winter: \$0.10193

Service Charge:

\$/pump/mo. - single-phase: \$8.10 \$/pump/mo. - polyphase: \$12.00 # of pumps - single phase: 0 # of pumps - polyphase: 1

Pacific Gas and Electric Company, Schedule No. E-EPS, Energy Procurement Surcharges, Effective May 15, 2001 Quantity Charge:

> All electric service customers: \$0.0100/kWh Schedule A-1 & A-1P customers

\$/kWh - summer: \$0.06140 \$/kWh - winter: \$0.02838

Appendix C (Page 2 or 2) Las Flores Water Works

Recommended Quantities -- Test Year 2002

4. Service Connections:

For 5/8 x 3/4-inch meter 59 TOTAL 59

Metered water sales used to design rates: 8,992 Ccf

5. Property Taxes: \$565 (1.0% tax rate)

6. Payroll Taxes: \$772

7. Contract Work - Water Testing: \$900

8. Adopted Tax Calculations

Line		State	Federal
No.	Item	Tax	Tax
1	Operating Poyonues	\$25,180	\$25,180
1.	Operating Revenues		
2.	Expenses	\$14,167	\$14,167
3.	Taxes Other Than Income Taxes	\$ 1,337	\$ 1,337
4.	Depreciation	\$ 1,474	\$ 1,474
5.	Interest	\$ 0	\$ 0
6.	State Taxable Income	\$ 8,202	
7.	State Income Tax (@8.84%, no \$800 minimum)	\$ 725	
8.	Federal Taxable Income		\$ 7,475
9.	Federal Income Tax (@15%)		\$ 1,122
10.	TOTAL INCOME TAX		\$ 1,847

Appendix D Las Flores Water Works

Comparison of Rates -- Test Year 2002

METERED SERVICE

	Per Service Connection Per Month			<u>Month</u>
	Present	Rates Before	Rates Incl.	Percent
	<u>Rates</u>	<u>CPI</u>	<u>CPI</u>	<u>Increase</u>
Service Charge:				
For 5/8 x ¾-inch meter	\$13.55	\$ 19.35	\$ 19.82	42.8%
For ¾-inch meter	\$20.35	\$ 29.03	\$ 29.73	42.7%
For 1 – inch meter	\$33.89	\$ 48.38	\$ 49.55	42.8%
Overtity Charge				
Quantity Charge:				
All water, per 100 cu. ft.	\$1.140	\$1.276	\$1.31	12%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3 4-inch is shown below at current rates and recommended rates for Test Year 2002:

Usage	Present	Recommended Rates (Including	Amount of	Percent of
<u>100 cu. ft.</u>	Rates	<u>CPI Increase)</u>	<u>Increase</u>	<u>Increase</u>
0	\$13.55	\$19.35	\$5.80	42.8%
5	\$19.25	\$25.74	\$6.49	33.7%
10	\$24.95	\$32.12	\$7.17	28.7%
13 (avg)	\$28.37	\$35.95	\$7.58	26.7%
20	\$36.35	\$44.88	\$8.53	23.5%
30	\$47.75	\$57.65	\$9.90	20.7%
40	\$59.15	\$70.41	\$11.26	19.0%
50	\$70.55	\$83.17	\$12.62	17.9%